

## **VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM**

Meeting of the Board of Trustees

February 15, 2005

### **Members present:**

DICK JOHANNESSEN, Governor's Delegate

JEB SPAULDING, Vice-Chairperson, VT State Treasurer

WAYNE CALDERARA, Alternate for Retired Vermont State Employees' Association

### **Member(s) absent:**

JANICE ABAIR, Retired Vermont State Employees' Association

WARREN WHITNEY, Chairperson, VSEA member (term expiring September, 2006)

ROBERT HOOPER, VSEA member (term expiring September 2006)

WILLIAM HARKNESS, VSEA member (term expiring September 2005)

ROB HOFMANN, Commissioner of Finance & Management

CINDY LAWARE, Commissioner of Human Resources

### **Also attending:**

Donna Holden, Board Coordinator

David Minot, Director of Finance and Investments

Dick Charlton, Ellen Griggs, Kevin Kondry, NEPC

Marie Duquette, Governor's Appointee VMERS Board

Vice Chairman, Jeb Spaulding moderated the meeting. He began by thanking NEPC and members for attending, and welcomed Ms. Duquette.

Ellen Griggs explained, on Wednesday, January 19, 2005, a conference call meeting was held to discuss the Global Bond search initiated by the VSERS as a replacement for Deutsche Asset Management. She said the Municipal Board was interested in the additional asset class, therefore appointed Ms. Duquette as their representative. The subcommittee who served for the review process was: Mr. Whitney, Marie Duquette, David Minot, and NEPC - Ellen Griggs, Kevin Kondry, and Alison Ballard. After a comprehensive and lengthy discussion three finalists were selected from the original twelve potential managers.

### **ITEM 1: Global Bond Manager Finalist Presentations**

**Brandywine Asset Management LLC:** Steve Smith, Executive Vice President and Fixed Income Portfolio Manager, and Craig Scott, Director of Marketing & Client Services appeared before the Board.

Located in Wilmington, Delaware and owned by Legg Mason this firm was the smallest of the three finalists with total assets of \$15B, of which product assets totaled just under \$4B. The top down perspective focused on real yields, emphasizing long-term returns in excess of inflation. The firm also offered the most concentrated strategy averaging 20-40 holdings. The firm's biggest differentiator was the active currency strategy, with up to 40% of their value added derived from the currency strategy. This approach was believed to serve as an amazing "shock absorber" and/or risk reduction component with their global bond strategy.

**Bridgewater Associates:** James L. Haskel, Director Portfolio Strategy, and Joel P. Whidden, Director Public Fund Marketing appeared before the Board.

Located in Westport, Connecticut this company was incorporated in 1973 and is currently 95% owned by Ray Dalio (President & CIO), and 5% owned by Bob Prince (Director of Research), with some key employees owning stock options. This firm was the largest of the three finalists with firm wide assets totaling \$90B, of which product assets totaled \$18B. This firm also focused on real yields but with a focus on a macro view of the markets with little or no bottom up influence. This firm believed important value added drivers were macro mechanical in nature – currency (30%), country (30%), yield curve (15%) and duration (25%). This firm did not employ credit in their process; hence all of their holdings are governmental securities.

**Mondrian Investment Partners Ltd:** Christopher A. Moth, Director and CIO, Daniel Philips, Portfolio Manager, and Patricia M. Karolyi, Senior VP Client Services appeared before the Board.

Located in London, England, with US offices in Philadelphia, this firm recently completed a management lead buyout from Delaware Asset Management. The partnership now has ownership spread across most employees, senior management owning 57%, and Hellman and Fredman LLC. The firm assets total approximately \$28B, of which product assets totaled \$1.2B. The top down perspective focused on real yields, emphasizing long-term returns in excess of inflation. This firm's approach differed in that they were more broadly diversified in their country allocation, which served as the primary driver of long-term performance – up to 50%. This firm utilized currency only for defensive purposes that accounted for up to 20% of their value added. They also incorporated credit into the process of up to 30%.

**ITEM 2:      Board Discussion**

The members discussed the finalist presentations and recommendations to the respective Boards.

**ITEM 3:      Any other business to come before the Board**

None

**Next Meeting Dates:**

The next meeting of the Board will be February 17, 2005.

**Adjournment**

**Due to the lack of a quorum, the meeting was declared adjourned by Vice-Chairman, Jeb Spaulding at 5:11 p.m.**

Respectfully submitted,

Donna Holden, Board Coordinator